

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Fuentes Analyst: Angela Raygoza Bill Number: AB 15  
 Related Bills: See Prior Analysis Telephone: 845-7814 Amended Date: February 26, 2009  
 Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Disaster Loss Deduction/Excess Loss Carryover/ October & November 2008  
 Los Angeles County Wildfires

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED

☒ December 1, 2008, STILL APPLIES.

☒ OTHER – See comments below.

**SUMMARY**

This bill would allow special tax treatment, called disaster loss treatment, for losses sustained as a result of the October and November, 2008, Los Angeles County wildfires.

This analysis will not address the bill's changes to the Property Tax Law, as they do not impact the department or state income tax revenue.

**SUMMARY OF AMENDMENTS**

The February 26, 2009, amendments would add the October, 2008, Los Angeles County wildfires to the list of specified disasters.

As a result of the amendments, the "Program Background," "This Bill," and "Revenue Impact" discussions, as provided in the department's analysis of the bill as introduced December 1, 2008, have been revised. The remainder of that analysis still applies.

Board Position:

\_\_\_\_\_ S \_\_\_\_\_ NA \_\_\_\_\_ NP  
 \_\_\_\_\_ SA \_\_\_\_\_ O \_\_\_\_\_ NAR  
 \_\_\_\_\_ N \_\_\_\_\_ OUA \_\_\_\_\_ X PENDING

Asst. Legislative Director

Date

Patrice Gau-Johnson

04/13/09

## ANALYSIS

### PROGRAM BACKGROUND

Governor Arnold Schwarzenegger proclaimed on October 13, 2008, and November 15, 2008, a state of emergency declaring the wildfires that occurred in Los Angeles County to be a state disaster. In addition, on November 18, 2008, President George W. Bush declared a federal disaster for the wildfires that occurred in Los Angeles, Orange, Riverside, and Santa Barbara Counties. President Bush did not declare a federal disaster for the October, 2008, wildfires in Los Angeles County.

### THIS BILL

As a Governor-proclaimed disaster, this bill would allow taxpayers affected by the Los Angeles County wildfires in October or November, 2008, to elect to file an amended return for the prior taxable year to deduct the disaster loss and reduce the prior year tax liability, resulting in an expedited refund. This bill would also allow special carry forward treatment for up to fifteen taxable years for losses sustained as a result of the wildfires.

As a Presidentially-declared disaster, existing law allows taxpayers affected by the November, 2008, Los Angeles County wildfires to elect to file an amended return for the prior taxable year to deduct the disaster loss and reduce the prior year tax liability, resulting in an expedited refund.

### ECONOMIC IMPACT

#### Revenue Estimate

The revenue impact for this bill would be as follows:

Estimated Revenue Impact of AB 15 Effective Immediately Upon Enactment Enactment Assumed After June 30, 2009				
	2008-09	2009-10	2010-11	3-Year Impact
October	-\$1,000	+\$1,000	\$0	\$0
November	-\$5,000	+\$3,000	+\$2,000	\$0
Total	-\$6,000	+\$4,000	+\$2,000	\$0

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

### Revenue Discussion

The revenue impact of this bill would depend on the extent affected taxpayers file amended 2007 income tax returns and report a disaster loss deduction as a result of wildfires that commenced in October or November, 2008, in Los Angeles County.

#### October Wildfires (Marek and Sesnon Fires)

Total property damages attributable to the October, 2008, wildfires are estimated at approximately \$40 million (75 residences destroyed at an average home value of \$485,000 plus 3 commercial buildings valued at a total of \$1 million, plus 63 outbuildings valued at \$100,000 each). It is estimated that 90 percent of losses are insured. Therefore, uninsured losses are approximately \$4 million ( $\$40 \text{ million} \times 10\%$ ). Assuming an average marginal tax rate of 6.25 percent, this would yield a disaster loss deduction of approximately \$250,000 ( $\$4 \text{ million} \times 6.25\%$ ).

Losses may be used in the year prior to the disaster, the year of the disaster, or carried forward to future years. This bill would extend the period to report the disaster loss deduction on an amended 2007 return from April 15, 2009, to October 15, 2009. Approximately one percent of taxpayers would take advantage of this extension, for a revenue loss of approximately \$2,500 ( $\$250,000 \times 1\%$ ). Of this loss, approximately one-half would be applied to reduce tax liabilities ( $\$2,500 \times 50\% = \$1,250$ ) for the 2008-09 fiscal year.

Future years would show offsetting revenue gain. Department data suggest that offsetting revenue gains would be approximately 50 percent in 2009-10, or \$625 ( $\$1,250 \times 50\%$ ), and 30 percent in 2010-11, or approximately \$375 ( $\$1,275 \times 30\%$ ). Amounts less than \$1,000 are rounded. The overall revenue impact for the three-year period is zero ( $-\$1,000 + \$1,000 + \$0$ ).

#### November Wildfire (Sayre Fire)

Total property damages attributable to the November, 2008, Los Angeles County wildfire are estimated at approximately \$181 million (487 residences destroyed at an average home value x \$340,000 + 1 commercial building valued at three times residential +146 outbuildings valued at \$100,000 each). It is estimated that 90 percent of losses are insured. Therefore, uninsured losses are approximately \$18 million ( $\$181 \text{ million} \times 10\%$ ). Assuming an average marginal tax rate of 6.25 percent, this would yield a disaster loss deduction of approximately \$1 million ( $\$18 \text{ million} \times 6.25\%$ ).

Losses may be used in the year prior to the disaster, the year of the disaster, or carried forward to future years. This bill extends the period to report the disaster loss deduction on an amended 2007 return from April 15, 2009, to October 15, 2009. Approximately one percent of taxpayers would take advantage of this extension, for a revenue loss of approximately \$10,000 ( $-\$1 \text{ million} \times 1\%$ ). Of this loss, approximately one-half would be applied to reduce tax liabilities ( $-\$10,000 \times 50\% = -\$5,000$ ) for the 2008-09 fiscal year.

Future years would show offsetting revenue gains. Department data suggest that offsetting revenue gains would be approximately 50 percent in 2009-10, or \$3,000 (\$5,000 X 50%), and 30 percent occur in 2010-11, or \$2,000 (\$5,000 X 30%). The overall revenue impact for the three-year period is zero (-\$5,000 + \$3,000 + \$2,000).

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